Outlook for the
Automotive Industry
in Ontario

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OUTLOOK FOR THE AUTOMOTIVE INDUSTRY IN ONTARIO

Policy Planning Branch
Ministry of Treasury, Economics
and Intergovernmental Affairs
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SUMMARY

- U.S. domestic auto sales dropped 23 per cent in 1974 and this year it is expected that there will be a further 15 per cent decline from the 1974 level.

- Canadian domestic auto sales held up until the fourth quarter of 1974, when they fell 12 per cent below the 1973 level.

- Sales in Canada have been below 1974 levels through the first half of this year and are expected to average about 3 per cent lower for the year.

- Production levels in both the U.S. and Canada have been about 20 per cent below 1974 output in the first half of this year. The situation has improved considerably in the second quarter.

- In Ontario, over 13,000 parts and assembly workers are now laid-off on a "permanent" basis (15 per cent of the auto work force). (In the U.S., over 20 per cent of workers in the industry are on permanent layoff.)

- The Ontario outlook is for an improvement in the layoff picture in the fall of 1975.

- In assembly, many workers are covered by Supplemental Unemployment Benefits (SUB) which provide substantial income support, as long as funds hold out. (Estimates are difficult and vary with each manufacturer, but six months could be taken as a rough indication.) Many workers have no special relief assistance except U.I.C.

- In parts, only half the workers are covered by SUB and some of these plans have already been exhausted.

- The long run outlook for the industry implies limited growth potential. It suggests that the industry will not experience the record 1973 production levels again until 1980 or later.

- Appendix A of this paper outlines the performance of the Ontario industry in relation to the objective of the Auto Pact. It shows that the industry was modernized and production and employment increased substantially. Also, Canada's trade deficit was significantly reduced over the period 1965-1972. However, there are a number of problems. The price differential between U.S. and Canadian cars, while it has narrowed, still exists. The agreement had the negative effect of increasing Ontario's economic dependence on a single sector of the U.S. economy. Finally, Canada's deficit in the manufacture of parts has grown dramatically.

I. CURRENT STATUS OF THE INDUSTRY

Sales: Table 1 details the sales slump in the Canada-United States manufactured passenger car market. Canada-U.S. auto demand has slackened significantly from the record 1973 levels.

SALES OF NEW DOMESTIC PASSENGER CARS, ANNUAL RATE ('000's)

Table 1

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
United States					
1972	8,320	10,156	8,664	10,168	9,327
1973	9,900	10,976	8,992	8,840	9,677
1974	7,092	8,672	7,800	6,256	7,455
1975	6,092	7,600*			
74/73	-28.4	-21.0	-13.3	-29.2	-23.0
75/74	-14.1	-12.4*			
Canada					
1972	536	829	526	726	654
1973	728	1,008	654	762	783
1974	719	1,060	739	699	797
1975	671	1,030*			
74/73	- 1.1	+ 5.1	+16.6	-12.2	+ 1.8
75/74	- 6.8	- 2.8*			

Source: Survey of Current Business, Statistics Canada, CANSIM Databank #D2369

* Preliminary Estimates

Reflecting concerns over the fuel shortage, inflation and general economic uncertainty, U.S. passenger car sales dropped 23 per cent in 1974 while Canadian sales rose a modest 1.8 per cent. The situation became critical in the fourth quarter of 1974 with U.S. sales down 29 per cent over the same period a year earlier while Canadian sales fell by 12 per cent. Recent figures have indicated some improvement, although sales still remain below 1974 levels in both Canada and the U.S.

II. SHORT RUN INDUSTRY OUTLOOK - ONTARIO

U.S. Economic Conditons: No growth in the overall U.S. economy is projected for 1975 and declines are expected for consumer durables, especially automobiles. Sales of domestic autos in the fourth quarter of 1974 were 29 per cent below their level a year earlier, and in the first quarter of 1975 were 14 per cent lower.

Auto makers still have to meet strict U.S. 1977 emission control standards, although a five-year moratorium on further restrictions has been declared by the President. This moratorium could give stimulus to the industry, but tough energy conservation measures will raise gas prices. All the auto companies have also indicated further price rises of $200 - $400 for 1976 models to meet rising costs.

To date, the overall response of the U.S. industry has been first to cut production and second to cut costs. Chrysler, followed by Ford and GM, announced limited price cuts of $100 - $500 in February which proved relatively effective in bringing the inventory level down. Inventories have slipped back to a dangerous level, however, prompting Chrysler to reintroduce the rebate program. American Motors has recouped a lot of its sales through their popular new model, the "Pacer". General Motors is concentrating on the development of smaller, fuel-economy cars, while all of the companies are cutting internal costs and searching for ways to increase efficiency.

Sales of domestic units are expected to recover with the introduction of the 1976 models in the fourth quarter of 1975, but the total for the year will still drop to approximately 7.5 million units, a 15 per cent decline from 1974. Sales in 1976 are expected to recover to the 9 million a year range which prevailed in 1974.

North American producers continue to face intensive competitive pressure from imports, particularly in the U.S. market, despite the advantages gained from exchange rate adjustments in recent years. The import share of the U.S. market in the first half of 1975 will have averaged about 21 per cent of total auto sales, well above the earlier norm. Renewed interest in imported cars is one of the major reasons why domestic car sales in the U.S. remain depressed.

SHARE OF IMPORTS IN NEW CAR MARKETS
(PER CENT OF TOTAL)

Table 2

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Canada					
1973	20.9	18.3	22.8	16.2	19.4
1974	15.2	13.9	18.3	15.1	15.5
1975	15.9	16.2*			
United States					
1973	15.8	15.7	15.9	14.0	15.4
1974	17.3	13.7	16.9	16.4	16.0
1975	21.2	20.6*			

Source: Statistics Canada 63-007
Survey of Current Business

* Preliminary Estimates

Inventories: The inventory of new cars in the U.S. remains high in May, at a 68 day supply. This represents a supply of 1.58 million cars. Auto companies consider a 40-50 day inventory to be normal.

U.S. NEW CAR INVENTORY (1974-75)
Month End Days' Supply Relative to Daily Selling Rates

Table 3

	December	January	February	March	April	May
GM	100	91	66	67	71	63
Ford	100	90	67	88	85	78
Chrysler	136	107	71	75	105	72
AMC	120	94	65	70	61	62
Total	97	93	67	74	79	68

Source: Ward's Automotive Reports, June 9, 1975

In December, when inventory levels were considered critical, the backlog was only slightly higher, at 1.67 million cars, but daily selling rates were considerably lower. Chrysler achieved some success in moderating inventory levels by reintroducing its rebate scheme for May. Small car inventories remain high, with supplies for Vega at 111, and Pinto at 92 days.

Production: Production levels in North America reflect the decline in sales. For both countries, figures for the first half of 1975 indicate that production levels were 20 per cent below those of 1974. There would appear to have been a modest recovery in the second quarter.

PASSENGER CAR PRODUCTION
CANADA-UNITED STATES (000's)

Table 4

Year	1st Quarter	2nd Quarter*
United States		
1974	1,786.0	2,028.0
1975	1,300.0	1,826.0
75/74	-27.3	-10.0
Canada		
1974	342.0	332.4
1975	254.4	291.4
75/74	-28.3	-12.4

Source: Survey of Current Business, Statistics Canada.

* Estimated

In 1974, U.S. production of autos reached 7,340,400 units, down 24 per cent from 1973. Canadian production fell only 6.6 per cent in the same period. Canadian production held up for most of 1974 because of strong domestic demand and the fact that certain small and medium sized cars manufactured in Canada continued to sell well in the U.S. The Chrysler Windsor assembly plant, currently producing its popular Cordoba model, has been the only plant among those of the Big Four automakers not to experience a shut down since the 1975 model year began last August. The decision to produce the Cordoba in Canada and not the United States has often been referred to as simply "the luck of the draw".

Trade Considerations: The Canadian automotive industry has been hard hit by the slump in U.S. sales, since approximately three-quarters of Canadian production is exported to the U.S. In addition, however, a serious problem is developing in Canada's balance of auto trade. The Canadian market has not suffered the same dramatic declines as in the U.S., and this has tended to maintain auto import levels. Consequently, while Canada's exports of assembled cars to the U.S. in the first two months of 1975 were almost 50 per cent below the same period in 1974, imports were off only about 13 per cent. In 1974, Canada's Auto Pact deficit reached $1.3 billion. The deficit for auto parts and accessories was over $2.0 billion, while Canada experienced a surplus in assembled cars and trucks of nearly $900 million. The deficit in 1975 could be even worse.

NEW PASSENGER CAR TRADE WITH THE U.S.
(000's units)

Table 5

Year	Exports Jan.	Exports Feb.	Exports YTD	Imports Jan.	Imports Feb.	Imports YTD
1974	74.28	87.65	161.93	33.00	40.96	73.96
1975*	41.14	40.21	81.35	29.11	35.52	64.63
75/74	-44.60	-54.10	-49.80	-11.80	-13.30	-12.60

Source: Survey of Current Business

* Preliminary
YTD = Year to Date

Layoffs: Layoffs in Canada's automotive industry as of the end of May, with U.S. figures where available, are shown in Table 6 below.

AUTOMOTIVE INDUSTRY LAYOFFS*

Table 6

Firm	Number of Workers Canada	Number of Workers U.S.	Per Cent of Auto Labour Force Canada	Per Cent of Auto Labour Force U.S.
Indefinite Layoffs				
Chrysler	1,351	36,750	10.7	29.8
Ford	1,200	19,550	8.8	10.9
GM	2,431	102,000	9.7	24.7
AMC	-	616	-	N/A
Big Four Total	4,982	158,916	9.4	23.3
Independent Parts	7,500	N/A	19.2	N/A
Total Industry	13,482	-	14.9	-

Source: Treasury, Economics and Intergovernmental Affairs estimate.

* Figures are subject to change as the auto companies make their production plans known.

In Canada about 13,500 workers are indefinitely laid off and temporary layoffs have been in the three to five thousand range for most of May. Permanent layoffs represent about 15 per cent while temporary layoffs are only 5 per cent of the Canadian auto industry work force. This represents a large improvement from early spring layoffs, when peaks of 20,000 indefinite and as many as 35,000 temporary layoffs were reached in the industry. In recent weeks, the industry has stepped up production and recalled thousands of Canadian and U.S. workers from layoff in anticipation of the spring upturn in sales.

Regionally, the Canadian layoffs are concentrated in the Lake St. Clair region (5,200 indefinite for Windsor) and the Central Ontario Region (3,500 indefinite in Oshawa). These cities are affected by the situation in both assembly and parts and accessories industries. Other municipalities which are burdened by the decline in the parts and accessories sector are spread out across the province, particularly in the mid-Western and Niagara regions.

Status of the Laid-off Workers: All assembly workers are covered by the S.U.B. Fund. About 50 per cent of those in the parts and accessories industry are covered in Canada. S.U.B. funds augment the unemployment insurance benefits to give the eligible worker on layoff 95 per cent of his take-home pay. This total is reduced by $7.50 a week for expenses the worker does not have because he is idle, such as meal and tranportation costs. As Table 7 shows, an unemployed auto worker suffers a minor reduction in take-home pay if he is eligible for S.U.B. but a major reduction if he is not.

COMPARISON OF WORKER WITH AND WITHOUT S.U.B.
(Married Auto Worker with One Child)

Table 7

	Employed Worker	Unemployed Worker	
	Regular Pay $	With SUB $	Without SUB $
40 hour week (gross)	222*	0	0
Taxes	50	0	0
Net Pay	172	0	0
Net UIC Benefits	0	92	92
Net SUB Benefits	0	64	0
Total	172	156	92
Shortfall from Employed Worker	0	-16	-80

Source: Ministry of Treasury, Economics and Intergovernmental Affairs

* Estimated Average Weekly Earnings - 1974

S.U.B. cheques are based on straight-time pay. They do not cover overtime pay which many workers have built into their budgets. The S.U.B. is funded by the employers, and contributions range from seven cents to twelve cents per employee hour worked; (the lower the fund balance, the higher the employers' contribution rate). Canadian auto companies have their own fund which is separate from that of the U.S. companies.

The worker who has been on the job less than a year is ineligible for S.U.B. With 12 months of service, a worker is eligible for S.U.B. payments for 26 weeks. If he has two or more years of seniority, he can receive benefits up to 52 weeks. However, the duration of S.U.B. benefits is shortened, under terms of the labour contract, as the balance in the S.U.B. account drops. The amounts of each cheque will not be reduced, but workers will not receive as many cheques.

A worker who is eligible for 52 weeks of S.U.B. is also entitled under U.A.W. contracts to Blue Cross, Blue Shield, drug prescription and life insurance coverage for approximately 13 months following the date of layoff. However, the duration of these benefits is also reduced as the fund balance drops.

There is some concern regarding the viability of the S.U.B. program. The fund was intended to tide laid-off workers over model changeovers or temporary slumps. The funds are not designed to cover massive layoffs or lengthy strikes. The S.U.B. funds in the U.S. are currently paying out much more than they are taking in. GM's fund and Chrysler's white collar fund have been exhausted with no date set for when payments will begin again. Ford and AMC officials project that benefits will expire in 3-6 months if the current situation persists.

Compared with their counterparts in the United States, jobless auto workers in Canada do not have to worry about unemployment funds running dry, at least for a while. Both Ford Motor Company of Canada Ltd. and American Motors (Canada) Ltd. report their S.U.B. fund at better than 50 per cent full balance and although funds at Chrysler Canada Ltd. and General Motors of Canada Ltd. are much lower, they are not in any immediate danger. If layoffs do not get worse, GM and Chrysler would be able to keep paying out for the next three to four months.

A growing number of Canadian layoffs are occuring in the parts and accessories industry which is only partly covered by the S.U.B. fund. There are currently about 25,000 workers covered out of an estimated work force of nearly 50,000. Their S.U.B. funds are also under greater strain than those in assembly, with two of the larger funds already dry. Consequently, the status of the laid-off worker here appears worse than that of his counterpart in assembly.

Canadian Economic Conditions: While it is true that the Canadian auto industry's outlook is dominated by U.S. market conditions, economic conditions in Canada are important to industry's performance.

The drop in Canadian demand for automobiles in 1975 can be attributed to:

- general consumer uncertainty stemming from rising unemployment, continuing high inflation and slow growth in real disposable incomes;
- record purchases of new autos in the last two years;
- rising relative prices of automobiles, partly due to incremental costs of safety equipment and optional items; and
- rising operating costs, especially for fuel.

The prospect has been for the general weakness in the Canadian economy to continue through most of 1975, and the demand for new automobiles is likely to remain weak. With the expansionary budgets that were introduced by the provinces this spring, particularly by Ontario, the outlook for all durable spending has improved. Analysis undertaken by the University of Toronto on the impact of recent provincial fiscal policies indicates that consumer spending on durable goods will be 1.5 per cent higher in 1975 and 3 per cent higher in 1976 as a result of these measures. As a consequence, estimated annual sales of domestic autos in Canada will be down only about 3 per cent for the year, despite the signficant weakness in this market in the early part of the year.

Implications for Production and Employment in Ontario

The current levels of inventories in the U.S. coupled with a weak U.S. economy will force the auto companies to maintain their present levels of production. Little improvement will be seen in employment, at least until the new model year begins in mid-August. Removal of the Ontario sales tax on new machinery and equipment has improved the layoff picture by an estimated 1,500 workers in assembly,

parts and accessories. This implies that indefinite layoffs in Ontario assembly plants will remain around 5,000 - 6,000 workers. Layoffs in independent parts plants will, likely decline to the 6,000 level, and remain there until the fall of 1976.

Table 8 shows the regional distribution of the auto industry work force in 1971 and 1974. Approximately 89,000 persons were directly employed in the assembly, parts and accessories industry in 1974. Excluded from these numbers are employees in other auto-related production such as the manufacture of bodies for certain vehicles, auto glass, batteries and tire and tubes. At present, it is estimated that about 100,000 persons are directly employed in the overall auto industry in Ontario. It is estimated that about 15 percent of the industry work force has lost employment in the current situation. Most of this unemployment has occurred in the Oshawa, Oakville, Windsor, Chatham and St. Thomas areas.

The indirect effects of the auto industry situation are more difficult to foresee. It is estimated that one in eight jobs in Canada are dependent either directly or indirectly on the auto industry. In Ontario, the figure would likely be close to one in six. With the slowdown in auto production, a number of producers of auto supplies have still been able to maintain capacity production as they fill other order backlogs. As these areas begin to weaken, however, the indirect effects of the auto slump could become more pronounced in industries such as steel, aluminum, glass, plastics and fabrics. In the second half of 1975, it is estimated that 7,000 jobs will have been lost as a result of the indirect affects. This represents an improvement from early spring when it was estimated that, as a result of these indirect effects, employment was 11,000 below normal.

ONTARIO AUTO WORK FORCE

Table 8

	Assembly		Parts & Accessories		Total			Existing Indefinite	
	1971	1974	1971	1974	1971	1975	%	Layoffs	(%)***
Central Ontario	20,808	26,300	8,909	10,100	29,717	36,400	40.9	6,030	16.6
Lake Erie	3,202	4,050	2,741	3,200	5,943	7,250	8.1	480	6.6
Lake St. Clair	8,417	10,650	14,712	16,700	23,129	27,350	30.7	5,000	18.3
Niagara			10,328	11,700	10,329	11,700	13.1	1,320	11.3
Mid-Western Ontario			4,606	5,200	4,606	5,200	5.8	550	10.6
Georgian Bay			784	1,000	784	1,000	1.1	100	8.3
Lake Ontario			184	200	184	200	.2		
Provincial Total	32,445	41,000**	42,274	48,100**	74,719	89,100	100.0	13,480	15.1

Source: Ministry of Treasury, Economics and Intergovernmental Affairs.

* As of May 31, 1975

** Preliminary Estimate

*** Per Cent of Regional Auto Workforce

III. MID TO LONG TERM OUTLOOK

Table 9 below outlines a forecasted recovery in demand for new cars in the U.S. over the 1975-76 period.

U.S. TOTAL SALES OF NEW PASSENGER CARS
NUMBER OF UNITS - ANNUAL RATE (millions)
SEASONALLY ADJUSTED

Table 9

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
1970	8.7	9.1	9.0	6.9	8.4
1971	10.0	9.3	10.7	10.5	10.4
1972	10.3	10.7	11.4	11.3	10.9
1973	12.5	12.2	11.7	9.8	11.6
1974	9.2	9.2	10.3	7.2	9.0
1975*	7.5	7.7	7.8	8.0	7.8
1976*	8.4	8.9	9.4	9.8	9.1

Source: Survey of Current Business
* Figures for 1975 and 1976 are forecasted by Security Pacific National Bank, Los Angeles.

It is important to note that "recovery" refers to a return to 1974 sales levels, and does not anticipate a repeat of the record sales of the 1971-73 period. Most industry analysts do not foresee North American sales in the 12-13 million range until the end of this decade. Consequently, mid to long term expansion prospects are limited. Between 1970 and 1973, U.S. sales expanded at an average rate of 11.6 per cent. Estimates for 1975 to 1980 place the expansion rate at only 3.5 per cent, with a slowing to 2.3 per cent forecasted for the 1980 to 1985 period. A number of factors affecting the industry growth potential are examined below.

Demographic Changes: Since 1965, as the post war baby crop reached adulthood, the U.S. and Canadian 16+ population has swelled at an annual rate in excess of two per cent. Because of past declines in birth rates, this annual expansion is expected to slow to about 1.5 per cent in the 1974-1980 period. Birth rate declines and further immigration restrictions are expected to result in a Canadian-U.S. "car buying" population expansion of less than one per cent in the 1980-1985 period.[1]

Market Saturation: Per capita ownership of automobiles in North America may have reached a saturation level. Analysts have indicated that North America will maintain one car for every two people. The United States is currently at this level and Canada is fast approaching the same ratio.

Price and Cost Considerations: The average price of a 1975 model increased approximately $1,000 from 1974. This price jump, coupled with higher financing charges, has encouraged new car dealers to extend the average consumer financing contract from three to three and one-half years. Since many consumers prefer to complete the payments on their existing vehicle before repurchase, industry officials expect that the price increases will induce consumers to extend the life of their cars. Consequently, the growth in replacement demand may have a declining impact on new car demand projections.

Fuel shortages and price hikes constitute a further maze of direct and indirect disincentives. Detailed price elasticity studies are lacking, and although sharp increases in gasoline prices are alleged to reduce the use of and demand for private automobiles, experience in other countries suggests that consumption of gasoline

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[1] National Bureau of Economic Research.

is not very sensitive to price changes. Conclusive proof is lacking at this time. Energy limitations and environmental considerations promise to further the development of alternate transportation forms. In short, the role of the automobile as the predominant private transport facility could decline over the next decade.

In terms of auto output and employment, the Canadian industry is not expected to exceed the record 1973 levels until 1980. For the 1980-1990 period, only moderate expansion is expected. Over the last decade, the automotive industry has provided a major contribution to Ontario's economic expansion. This contribution promises to be less substantial in the future. The implication of this for industrial policy is that other sources will have to be found to underpin growth in manufacturing employment in Ontario.

APPENDIX A

THE AUTOMOTIVE AGREEMENT AND ITS ECONOMIC IMPACT

Background

Subject to a number of qualifications, the Auto-Pact resulted in the removal of all tariffs from completed cars, trucks and buses, and original equipment parts shipped between the United States and Canada. The Agreement was implemented by each country in a somewhat different manner. The United States removed all duties on specified new and used Canadian vehicles and original equipment automotive parts. Canada accorded duty free treatment to specified new motor vehicles and original equipment parts on a MFN basis to all automotive manufacturers who had production facilities in Canada at the time of the Agreement (this qualification limited participation to the U.S.). This procedure required a GATT waiver since both Canada and the U.S. had removed duties on products from a single country, violating the Most Favoured Nation provision (MFN) of the General Agreement on Tariffs and Trade (GATT).

In addition, Canada negotiated a number of special restrictive measures to allow the higher cost Canadian industry to adjust to the competitive pressures of the larger North American market. The most significant restrictions stated that:

1. only bona fide Canadian vehicle manufacturers may import automotive products duty free; and
2. in order to be considered "bona fide", manufacturers must meet certain minimum Canadian value-added and Canadian production to sales ratios.

In essence, this restriction ensured that Canadian production levels would not fall below 1964 levels, and prohibited individual

Canadians from importing motor vehicles from the United States without payment of a 15 per cent ad valorem duty. The Agreement also included a number of Letters of Undertaking from U.S. owned motor vehicle manufacturers to increase the level of Canadian value added in certain production categories.

Upon entering the agreement the basic objectives for Canada were:

1. To achieve more efficient production and a higher level of production and employment.
2. To reduce the trade deficit with the United States.
3. To increase domestic sales at lower prices for consumers.

The remainder of this appendix evaluates the degree to which these objectives have been achieved since 1965.

1. Productivity and Production

The efficiency of the Canadian automotive industry appears to have improved as a direct result of the Agreement. As a result of the rationalization permitted by the Auto-Pact, Canadian producers were able to reduce the number of models assembled in their plants. This avoided the need for frequent and costly model change-overs and retooling. Rationalization and access to the larger North American market, thus, permitted Canadian producers to concentrate on fewer models and longer production runs. The result, at least theoretically, is increased output at a lower average unit cost.

Assuming a positive correlation between capital investment and efficiency, the Agreement has resulted in significant productivity gains. Appendix Table 1A presents a listing of plant and equipment investment in the Canadian automotive industry for the 1960-1970 period.

PLANT AND EQUIPMENT EXPENDITURES
PARTS, ACCESSORIES AND ASSEMBLY
($ million - constant 1961 dollars)

Appendix Table 1A

Year	Assembly	Parts and Accessories	Total
1960	22.7	17.3	40.0
1961	19.9	8.6	28.5
1962	11.9	20.0	31.9
1963	32.9	22.4	55.3
1964	41.7	55.2	96.9
1965	67.6	94.6	162.2
1966	38.7	125.3	164.0
1967	61.5	61.2	122.7
1968	37.9	37.4	75.3
1969	26.2	74.3	100.5
1970	23.3	134.1	157.4
Average 60-64*	25.8	24.7	50.3
Average 65-70*	42.5	87.8	130.3

Source: CULURA Division of Statistics Canada, Status Confidential
Note: *Average Annual Investment

The data indicates a significant growth in real investment, as the annual average for the 1965-70 period is 157.9 per cent greater than the average for the pre-Agreement 1960-64 period. The Parts and Accessories manufacturing industry was the primary recipient of the increased investment, as the expansion rate is a substantial 255.6 per cent compared to 64.6 per cent for motor vehicle manufacturing. While the data, by itself, does not imply increased efficiency, the Agreement did apparently induce sizeable capital outlays to improve and expand production capacity.

The effects of the Agreement on Canadian production levels can be viewed in a more straight forward manner. Appendix Table 2A depicts value of shipments and value added in manufacturing for both the Motor Vehicle Manufacturing and Parts and Accessory Industries for the 1961-1972 period.

VALUE OF SHIPMENTS* AND THE VALUE ADDED
PARTS, ACCESSORIES AND ASSEMBLY
($ million - constant 1961 Dollars)

Appendix Table 2A

Year	Assembly (A)	Parts and Accessory (B)	Total (A+B)
		Value of Shipments*	
1961	870.9	352.6	1,223.6
1962	1,166.0	433.2	1,599.2
1963	1,492.4	528.0	2,020.4
1964	1,657.3	609.7	2,266.9
1965	2,105.6	725.2	2,830.7
1966	2,167.9	820.3	2,988.2
1967	2,481.7	856.7	3,338.5
1968	2,949.2	1,106.4	4,055.6
1969	3,464.1	1,216.3	4,680.4
1970	2,851.3	1,128.8	3,980.1
1971	3,457.0	1,452.9	4,909.9
1972	3,710.8	1,633.6	5,344.4
Average 1961-64**	1,296.7	480.9	1,777.5
Average 1965-72**	2,898.5	1,117.5	4,016.0
		Value Added in Manufacturing	
1961	276.2	158.6	434.7
1962	368.4	195.3	563.7
1963	484.4	241.5	725.9
1964	485.5	273.5	758.9
1965	627.0	313.5	940.5
1966	613.6	359.7	973.3
1967	761.7	377.8	1,139.5
1968	812.6	474.9	1,287.5
1969	910.4	551.8	1,462.2
1970	639.5	480.1	1,119.6
1971	798.4	649.9	1,448.3
1972	834.2	743.9	1,578.1
Average 1961-64**	403.6	217.2	620.8
Average 1965-72**	749.7	493.9	1,243.6

Source: Census of Manufacturers

*Value of Shipments (Production workers): Production workers figure is used in favour of Total Value of Shipments to avoid distortion due to inventory adjustments.

**Annual Average In Period.

Both sets of figures indicate substantial production increases in the Canadian automotive sector. The annual average real value of shipments for both industries was 125.9 per cent greater in the post-Agreement period. The parts sector displayed a figure which was 132.4 per cent larger than the 1961-64 annual average, and assembly registered a 123.5 per cent expansion. Value added comparisons display equally impressive production increases, but the annual average increase of 127.4 per cent for parts compared to 85.8 per cent for assembly indicate that the parts and accessory sector was somewhat more vigorous.

Appendix Table 3A reveals that the production increases were accompanied by a substantial increase in employment in the Canadian automotive industry.

TOTAL EMPLOYMENT IN CANADA
PARTS, ACCESSORIES AND ASSEMBLY

Appendix Table 3A

Year	Motor Vehicle Manufacturing (A)	Parts and Accessories Manufacturing (B)	Total (A+B)
1961	25,183	20,589	45,772
1962	27,001	22,203	49,204
1963	31,727	25,441	57,168
1964	36,026	29,442	65,468
1965	43,432	31,982	75.414
1966	42,507	34,759	77,266
1967	40,861	34,858	75,719
1968	39,112	39,454	78,566
1969	41,916	41,541	83,457
1970	38,145	38,866	77,011
1971	42,334	43,810	86,144
1972	44,042	46,189	90,231
Average 1961-64*	29,984	24,418	54,402
Average 1965-72*	41,544	38,932	80,476

Source: Census of Manufacturers
*Annual Average for Period

During the 1965-72 span, average annual employment in the two major sectors of the industry was 80,476, a 47.9 per cent increase from the pre-Agreement period. As was the case with production increases, the

parts and accessories industry registered somewhat larger gains (59.4 per cent) than the assembly sector (38.6 per cent). Employment growth in parts and accessories also tended to be a smoother progression than was the case in assembly. The latter industry experienced a significant employment "jump" in 1965 to 43,432 workers, a figure which exceeded the post-Agreement average by 4.5 per cent. Employment growth in parts and accessories was more gradual and steady.

The significant increases in efficiency, output levels and employment which were enjoyed by the Canadian automotive industry cannot, of course, be wholly attributed to the Auto-Pact. Another Economic Council study indicated that in 1969 without the Auto-Pact, value-added in parts and accessories would have been 65 per cent lower while value-added in assembly would have been about 50 per cent lower.[2] Profits would have been 53 per cent lower in assembly and 83 per cent lower in parts and accessories. However, employment would have been unchanged in all but the parts area where it would have been 33 per cent lower.[2]

2. Trade with U.S.

Appendix Table 4A details the value of automotive trade between the U.S. and Canada in the 1964-1974 period. As witnessed by the data, the Agreement did not lead to an immediate reversal of Canada's deficit position. However, by 1967 a substantial improvement in the trade balance began to unfold. Led by a sharp increase in the value of passenger car exports, the deficit narrowed to 389 million dollars in 1968 and 90 million in 1969. Reductions in the parts and accessory deficit resulted in substantial trade surpluses of 204 million dollars in 1970 and 224 million in 1971. In the 1973-1974 period the deficit reappeared. Through 1972 the Agreement clearly facilitated a marked improvement in the Canadian trade balance.

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2. D.A. Wilton, An Econometric Analysis of the Effects of the Canada-U.S. Automotive Agreement, Economic Council of Canada.

(in millions of Canadian dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
U.S. Imports from Canada											
- Cars	19	74	342	748	1204	1662	1538	1943	2046	2271	2540
- Trucks	4	21	146	247	399	605	589	593	706	789	867
- Parts	53	151	389	512	846	1037	1127	1496	1778	2172	1953
- Tires & Tubes	6	4	9	13	9	5	15	8	22	68	64
TOTAL	83	250	886	1520	2458	3309	3269	4040	4552	5299	5424
Canadian Imports from U.S.											
- Cars	36	94	289	588	809	792	659	963	1059	1438	1635
- Trucks	24	60	95	132	189	263	275	363	496	644	898
- Parts*	621	797	1093	1314	1820	2307	2107	2448	2873	3565	4001
- Tires & Tubes	6	10	10	8	29	37	24	36	50	92	219
TOTAL	688	961	1487	2042	2847	3399	3065	3810	4478	5739	6753
Net Balance											
- Cars	- 17	- 20	53	160	395	870	879	980	987	833	905
- Trucks	- 20	- 39	51	115	210	342	314	230	211	145	- 31
- Parts	- 568	- 646	- 704	- 802	- 974	-1270	- 980	- 952	-1095	-1394	-2048
- Tires & Tubes	- 0	- 6	- 1	5	- 20	- 32	- 9	- 28	- 28	- 24	- 155
TOTAL	- 605	- 711	- 601	- 522	- 389	- 90	+ 204	+ 230	+ 67	- 440	-1328
Snowmobiles											
- included in Canadian Truck Imports						6	13	22	33	30	
- included in U.S. Truck Imports			16	39	66	119	147	125	103	66	
BALANCE			+ 16	+ 39	+ 66	+ 113	+ 134	+ 103	+ 70	+ 36	

Source: Statistic Canada Dailies of October 12 and December 11, 1973, December 20, 1974 and April 11, 1975

Note: *Special Tooling Charges on parts imported from the U.S. are excluded.

The foreign trade implications of the Automotive Agreement extend beyond a surplus or deficit in motor vehicle products. The Pact had profound effects on both the composition of total Canadian trade and the relative significance of the various major trading partners. Appendix Table 5A outlines adjustments in domestic export composition, and Appendix Table 6A reveals the significance of various export markets for the 1961-1973 period.

COMPOSITION OF CANADA'S TOTAL
DOMESTIC EXPORTS
(millions of dollars)

Appendix Table 5A

Year	Crude Materials	Food, Feed Beverages Tobacco	Fabricated Materials	End Products	Total
1961	1,195	1,198	2,777	506	5,755
1962	1,362	1,172	2,907	655	6,179
1963	1,426	1,420	3,107	779	6,799
1964	1,616	1,806	3,502	1,109	8,094
1965	1,764	1,630	3,729	1,300	8,525
1966	1,948	1,888	4,012	2,119	10,071
1967	2,108	1,602	4,229	3,115	11,121
1968	2,468	1,554	4,855	4,297	13,270
1969	2,463	1,410	5,163	5,378	14,498
1970	3,084	1,800	5,866	5,551	16,401
1971	3,264	2,045	5,797	6,193	17,397
1972	3,560	2,269	6,568	7,136	19,661
1973	5,019	3,008	8,194	8,308	24,719
(Per cent of Total Exports)					
1961	20.8	20.8	48.3	8.8	100.0
1962	22.0	18.9	47.0	10.6	100.0
1963	20.9	20.9	45.7	11.5	100.0
1964	19.9	22.3	43.3	13.7	100.0
1965	20.7	19.1	43.7	15.2	100.0
1966	19.7	18.7	39.8	21.0	100.0
1967	18.9	14.4	38.0	28.0	100.0
1968	18.6	11.7	36.6	32.4	100.0
1969	16.9	9.7	35.6	37.1	100.0
1970	18.8	10.9	35.8	33.8	100.0
1971	18.8	11.8	33.3	35.6	100.0
1972	18.1	11.5	33.4	36.3	100.0
1973	20.3	12.2	33.1	33.6	100.0
Annual Average					
61-64	20.9	20.7	46.0	11.1	100.0
68-73	18.9	13.3	36.6	30.3	100.0

Source: Statistics Canada

CANADA'S TOTAL DOMESTIC EXPORTS
TO PRINCIPAL TRADING AREAS
(millions of dollars)

Appendix Table 6A

Year	United States	United Kingdom	Japan	EEC[1]	Common-wealth[2]	Total
1961	3,107	909	232	446	329	5,755
1962	3,608	909	215	455	330	6,179
1963	3,766	1,007	296	475	392	6,799
1964	4,271	1,200	330	555	494	8,094
1965	4,840	1,174	316	626	502	8,525
1966	6,028	1,123	394	637	547	10,071
1967	7,088	1,169	572	677	638	11,121
1968	8,942	1,210	607	747	593	13,270
1969	10,274	1,091	625	841	594	14,498
1970	10,563	1,481	810	1,190	643	16,401
1971	11,683	1,380	829	1,094	601	17,397
1972	13,575	1,370	961	1,124	570	19,661
1973	16,612	1,582	1,804	1,508	776	24,719
			(Per cent of Total Exports)			
1961	53.9	15.8	4.0	8.1	5.7	100.0
1962	58.4	14.7	3.5	7.4	5.3	100.0
1963	55.4	14.8	4.4	6.9	5.8	100.0
1964	52.8	14.8	4.1	6.9	6.1	100.0
1965	56.8	13.8	3.7	7.3	5.9	100.0
1966	59.9	11.2	3.9	6.3	5.4	100.0
1967	63.7	10.5	5.1	6.1	5.7	100.0
1968	67.4	9.1	4.6	5.6	4.5	100.0
1969	70.9	7.5	4.3	5.8	4.1	100.0
1970	64.4	9.0	4.9	7.3	3.9	100.0
1971	67.2	7.9	4.8	6.3	3.5	100.0
1972	69.0	6.9	4.9	5.7	2.9	100.0
1973	67.2	6.4	7.3	6.1	3.1	100.0
Annual Average						
61-64	55.1	15.0	4.0	7.3	5.7	100.0
65-73	65.2	9.1	4.8	6.3	4.3	100.0

Source: Statistics Canada

1. Excluding United Kingdom, Denmark and Ireland
2. Excludes United Kingdom

The data supports two major shifts in emphasis. First, the post-Agreement period was characterized by a marked increase in the proportion of end products in the total export mix. End products accounted for 30.3 per cent of the total in the 65-73 period compared to only 11.1 prior to the Automotive Agreement. Secondly, the United States increased in significance as the dominant market for Canadian exports. Sales to the U.S. accounted for 55.1 per cent of total

Canadian exports prior to the Agreement and almost two-thirds (65.2 per cent) of the total afterwards. With the exception of Japan, all other major export markets declined in relative significance.

Appendix Table 7A reveals the direct contribution of automotive exports to both the aforementioned trends.

CANADIAN EXPORTS OF MOTOR VEHICLES AND PARTS TO THE UNITED STATES

Appendix Table 7A

Year	Motor Vehicle and Parts Exports to the U.S. ($ millions)	Share of Total End Product Exports (per cent)	Share of Total Domestic Exports (per cent)
1964	8	7.4	1.0
1965	250	19.2	2.9
1966	886	41.8	8.8
1967	1,520	48.8	13.7
1968	2,458	57.2	18.5
1969	3,309	61.5	22.8
1970	3,269	58.9	19.9
1971	4,040	65.2	23.2
1972	4,552	63.8	23.2
1973	5,299	63.8	20.3
1974	5,424	60.0	17.3
Annual Average		62.3	20.8

Source: Statistics Canada

In 1964 the export of motor vehicle products to the United States accounted for 7.4 per cent of end product exports and 1.0 per cent of total Canadian domestic exports. Over the past five years, the average comparative figures were 62.3 per cent and 20.8 per cent respectively. By 1971 the U.S. auto related market was the customer for over one-fifth of total Canadian exports.

In many respects the aforementioned figures are a testimonial to the benefits of free trade and the success of the Auto Pact. However, they also reveal the dependence of the Canadian export sector on the health of a single sector within the United States economy.

3. Domestic Sales and Prices

The third objective of the Automotive Agreement is related to an increase in domestic motor vehicle sales by supplying Canadian consumers with a more competitive product line at narrowed price differentials. Appendix Table 8A presents unit sales figures which compare the growth of the market for new cars and trucks in both Canada and the United States.

U.S. AND CANADIAN UNIT SALES OF NORTH AMERICAN TYPE AUTOMOBILES AND TRUCKS

Appendix Table 8A

Year	U.S. Sales (Thousands of Units)	Annual Growth Rate (per cent)	Canadian Sales (Thousands of Units)	Annual Growth Rate (per cent)
1965	10,320	--	754	--
1966	9,996	-3.1	758	0.5
1967	9,092	-9.0	738	-2.6
1968	10,432	14.7	779	5.6
1969	10,399	-0.3	788	1.2
1970	8,866	-14.7	622	-21.1
1971	10,692	20.6	739	18.8
1972	11,813	10.5	844	14.2
1973	12,592	6.6	1,018	20.6
1974	8,900	-29.3	1,057	3.8
Annual Average 1965-73		--0.4	810	4.6

Source: Eighth Annual Report to the President on the Operations of the Auto-Pact

As expected the Canadian market expanded more rapidly than the U.S., displaying a compounded annual growth rate of nearly 5 per cent compared to virtually no change for the U.S. Unit demand reached record levels in both countries in 1973, but with an annual growth rate of 20.6 per cent, the Canaidan market displayed more vigor than it's U.S. counterpart (6.6 per cent). 1974 marked a decline in the U.S. of 29.3 per cent with Canadian demand increasing slightly with a 3.8 per cent jump.

Appendix Table 9A presents comparisons of the price differentials in both markets.

U.S.-CANADIAN AUTOMOTIVE PRICE DIFFERENTIALS — Appendix Table 9A

Type of Vehicle	1965	1972	1973	1974
Factory List Price				
Subcompact, 2 door Sedan - Gremlin - Vega	N.A.	172(8.8%)	189(9.2%)	171(7.7%)
Popular Model, 4 door, 8 cyl. - Apollo - Dart - Granada	475(18.6%)	373(10.9%)	418(11.3%)	359(9.3%)
Higher Price, 2 door, 8 cyl. - Gran Prix - Cougar - Tornado	1,715(41.8%)	729(13.7%)	807(15.0%)	735(11.4%)
Manufacturers Suggested Retail Price				
Subcompact, 2 door Sedan	N.A.	373(18.8%)	398(19.3%)	400(17.9%)
Popular Model, 4 door, 8 cyl.	584(21.2%)	696(20.0%)	746(19.8%)	701(17.9%)
Higher Price, 2 door, 8 cyl.	1,815(40.5%)	1,246(23.2%)	1,278(23.4%)	1,311(20.0%)

Source: Eighth Annual Report to the President on the Operations of the Auto-Pact
Note: Adjusted for Currency exchange rate differentials

The data indicates a narrowing of factory list price differentials in the Post Agreement period, however, substantial differences still persist. Since factory list prices exclude transport and tax costs, there is the expectation of equal prices in a truly integrated market. Three arguments have been historically invoked to justify the price spread:

- The integration of the two sectors of the industry resulted in a decline of the value of certain Canadian assets of the vehicle producers that were unsuited for production in an integrated North American market.

- The cost of distribution and sales may be higher in Canada due to such factors as differences in costs of servicing warranties and of an inability to spread specific Canadian administrative costs, such as legal and customs documentation expenses, over as large a volume.

- Remaining restrictions in the Agreement may have led to excess production costs in North America. The differential between Canadian and U.S. prices would determine which country pays what proportion of the burden of any such cost expenses.

The first argument appears invalid in the current period. Given the frequent retooling in the industry, the magnitude of such losses are questionable, and in any case nine years appears as more than sufficient time to recoup. The second argument lacks credibility given similar warranty cost differentials in the various regions of the United States. The third argument remains plausible, but does not appear to justify the magnitude of the current factor price differentials. The Agreement has forced U.S. manufacturers to maintain a certain level of assembly operations in Canada. It may be that such plants operate at a slight cost disadvantage compared to locations in the North Central United States. However, the translation of any slight cost advantage into an 8-11 per cent price differential warrants further examination.

Summary The Automotive Agreement has directly resulted in a number of benefits for the Canadian and Ontario economies. An inefficient industry has been modernized, and substantial production and employment increases have been enjoyed. During the 1965-72 period, Canada was able to reduce and reverse a sizeable trade deficit in the automotive industry. Although differentials persist, the relative factory price spread between identical vehicles produced in Canada and the United States has narrowed representing a benefit to Canadian consumers. These benefits, however, have not come without cost. Of particular concern, is the fact that the Agreement has fostered a high degree of economic dependence within Canada on a single sector of the United States economy. This dependence is of special significance to Ontario, since the bulk of the Canadian automotive industry resides in the Province.

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Outlook for the
automotive industry in
Ontario.